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Ministry of Revenue

Integrated
Zero Base Budgeting
and Managing by Results
for
1982-83



Ontario

THE PRESENTATION



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RESOURCE PLANNING
AND
PERFORMANCE REVIEW
IN THE
MINISTRY OF REVENUE

Integrated
Zero Base Budgeting
and
Managing By Results

A PRESENTATION BY
THE MINISTRY OF REVENUE
AT
THE INVENTORY SHOWCASE
OF MANAGEMENT PROCESSES
MANAGEMENT BOARD OF CABINET
MARCH 12, 1981

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CONTENTS

	Page
DEPUTY MINISTER'S REMARKS	1
PRESENTATION TEXT	
PREAMBLE AND INTRODUCTION	2
1. HISTORY	3
2. OBJECTIVES OF IMPROVEMENT	3
3. METHOD AND SCOPE OF CHANGE	4
4. BASIC PRINCIPLES	5
5. ZBB-WRITING THE CONTRACT	5
6. MBR-MONITORING THE CONTRACT	6
7. CONTINUED DEVELOPMENT	7
8. SUCCESS FACTORS	8
9. RESULTS AND ACHIEVEMENTS	9
10. REFERENCES AND ASSISTANCE	9
OVERHEAD TRANSPARENCIES - CONTENT	10

DEPUTY MINISTER'S REMARKS

In March 1981, Management Board sponsored a one-day program: Inventory Showcase of Management Processes in use in the Ontario Government. This event took the form of a "trade fair" at which ministries displayed their management philosophies, procedures and systems. Seventeen ministries and central agency groups participated in the Showcase by staffing display booths, giving presentations and providing information which described their management processes.

The Ministry of Revenue's presentation comprised a booth with display panels, explanatory text and photographs which highlighted the Ministry's integrated ZBB/MBR resource planning and review process. A 30-minute talk, given at prescheduled times, was aided by overhead transparencies and was followed by question and answer sessions with staff of the Ministry's Finance & Priorities Planning Branch.

An evaluation survey of the over 700 senior ministry managers and professional staff from the Queen's Park area who attended the Showcase rated Revenue's booth and presentation very highly on design, content and what was actually learned about management processes.

The operating manual Resource Planning and Performance Review in the Ministry of Revenue IV is the main document which provides ministry managers with a step by step working guide to the integrated ZBB/MBR process. However, as a supplement to that manual, I believe that our Inventory Showcase Presentation text represents a clear explanation of the management process we are developing and a good summary of its essential elements.

For those managers who did not have the opportunity to attend the Inventory Showcase, the text of our presentation has been printed as a companion to the 1982/83 resource planning and performance review manual. I believe managers will find the presentation useful in putting the Ministry's ZBB/MBR process in its historical perspective and in describing the approach that we as a Ministry are taking to solve the problems involved in resource planning and performance management.

T.M. Russell
Deputy Minister
October, 1981

PRESENTATION TEXT

PREAMBLE AND INTRODUCTION

Ladies and gentlemen, what you have just seen and heard was the introduction to a slide presentation dealing with the planning and implementing of computer and non-computer management systems within the Ministry of Revenue.

The purpose of showing it to you is to emphasize the approach the Ministry of Revenue takes in combining financial, technical and human resources to build management systems which help maximize the effective use of all resources.

Many of the Ministry's management processes are rooted in the use of computer systems. These aid in the management of vast amounts of detailed program information which must be summarized, interpreted and communicated by managers, quickly and in a form which is easily understood. Computer technology and applications are important to the Ministry of Revenue and underlie much of what we are going to share with you today.

What we would like to present to you today at the Inventory Showcase is a brief history of Revenue's effort to improve the management of its human and financial resources, and develop a process sensitive to the political and human dynamics of managing more efficiently and effectively under conditions of severe budgetary constraints.

The Ministry of Revenue's Resource Planning and Performance Review Process is an integrated approach to Zero Base Budgeting (Z.B.B.) and Managing by Results (M.B.R.). In terms of the Government's Inventory of Management Processes, ZBB/MBR is Revenue's primary instrument in planning the allocation of resources and monitoring the fulfillment of those plans.

What follows, then, is a case study of integrated ZBB/MBR in the Ministry of Revenue. The presentation has been organized under the following ten sections:

- History
- Objectives of Improvement
- Method and Scope of Change
- Basic Principles of Process
- ZBB - Writing the Contract
- MBR - Monitoring the Contract
- Continued Development
- Success Factors
- Results and Achievements
- References and Assistance

1. HISTORY

By 1977, the Ministry of Revenue had developed the capability of monitoring the performance of its various programs against planned objectives stated in its annual Estimates.

A system called Managing by Results (MBR) was selectively introduced in 1975 and then extended to all program operations the following year. In 1977, however, the Government's constraint program was then entering its third year. This constraint program clearly presented the prospect of dealing with increasing workloads and operating costs under a continuous series of flat-lined budgets and resource allocations in future years. It, therefore, became imperative to improve the Ministry's resource management processes to meet this challenge. The progressive development of these processes can be traced in the manuals published annually since 1978.

2. OBJECTIVES OF IMPROVEMENT

At the outset, our senior management established a number of objectives for an improved resource management process.

- They needed better strategic control.
With the pressures from constraints, senior managers not only needed assurances that program priorities were being properly planned and executed, they required subordinate managers to provide documented proof that this was the case.
- A shift of tactical decision-making to middle management levels was needed. Operating managers would then feel more responsible for improving the budgeting and review process. They would also gain confidence in the use of the new systems necessary in their increased participation in the decision-making process.
- Government MBR policy had to be adapted to the Ministry's internal operations. The Government's MBR program, introduced in 1975, had proved to be a successful vehicle for presenting Ministry results for review by the Management Board of Cabinet. Extending this MBR concept for operational use within the Ministry involved adapting and refining many of the Ministry's existing information systems.

- To offset constraints, a facility for improving productivity was required. To meet program goals and objectives, it was essential to plan increased investment in EDP and other systems. This would help increase production while economizing on scarce staff resources. Only with such a facility to plan and document the investment strategy would the Ministry be able to program productivity improvements in periods of severe manpower constraints.
- Management Systems must be flexible. It is essential that Revenue's operating plans be flexible to allow resources to be redeployed and programs modified quickly in response to change in taxation and assessment policies.

It was recognized from the beginning that dedication and sustained commitment by senior management to the improvement of the process would be essential to achieve the planned objectives. Senior management was well prepared to give this commitment.

3. METHOD AND SCOPE OF CHANGE

Having decided to effect resource management changes and having established the benefits to be achieved, the Ministry needed to decide how the process improvements would be carried out. Considerations centred on two major factors: (a) the group who would design and carry out the changes; and (b) the method and scope of implementing the improvements.

One option was to hire consultants who would conduct a study of the Ministry's structure, needs and systems with a view to recommending improvements. There were a number of disadvantages, however, in taking this option; not least of which, was the inevitable "start-up" time needed by outside consultants to adequately understand the Ministry before they could begin productive study. On the other hand, the required professional talent had already been assembled in the Ministry's Finance and Priorities Planning Branch who already had responsibility for the preparation of the annual Estimates, monitoring MBR results and preparation of MBR abstracts. Improved resource planning seemed a natural extension of this mandate.

Should changes and improvements be introduced gradually in selected areas of the Ministry or as a total ministry-wide program? Since the primary purpose of resource planning was to produce the Ministry's annual Estimates, (which involved resource allocations and output commitments from all Ministry branches), it was considered more logical to implement changes, as far as possible, across the whole Ministry. These changes were to be designed and implemented by the Ministry's Planning Group in concert with senior management and operating managers.

Finance and Priorities Planning Branch's first task was to research existing ZBB/MBR methodologies, both in other governments and in private industry.

4. BASIC PRINCIPLES

Three basic principles were adopted before developing the Ministry's approach to ZBB:

- The ZBB process was to be adapted internally to the unique needs of the organization and not imposed as a "canned" system brought in from outside.
- Program managers, in their planning and budgeting process, were to systematically analyze alternatives and rank priorities.
- All data for each program was to be reviewed by, first, a group of operating managers, and then by senior management.

5. ZBB - WRITING THE CONTRACT

Of central importance in the Ministry's resource planning process, ZBB techniques are employed to write a performance contract between each level of management.

Developing the contract involves each manager in six steps:

- Managerial responsibility for making commitments and obtaining resources is identified for all Ministry programs.
- Managers describe and document their program functions and the measures or indicators by which the degree of performance will be measured.
- Managers plan different levels of service which can be performed at different funding levels.

- The priorities of each manager are thoroughly documented and ranked in a series of "decision packages" describing what output will be committed in exchange for the funding level provided.
- Each supervisory manager ranks the priority submission from lower managers. This happens right up to the Deputy Minister. Managers, in effect, specify what they will buy for the resource allocations made. They come to understand what the "Value for Money" is.
- Following review by senior management, Branch budgets are established and the annual Estimates submission is made for each segment in the Ministry's Organization.

6. MBR - MONITORING THE CONTRACT

Once the commitment contracts have been written and the annual Estimates approved, MBR systems are established to report actual performance in delivering the program service levels planned and funded. MBR systems combine data on expenditure costs from the Ministry's Financial Data Base System with manpower resource usage figures and data compiled from key result indicators.

Monitoring ZBB contracts through MBR systems involves five steps:

- Managerial responsibility for achieving results is established from the ZBB commitments each has made in exchange for specific funding.
- Variance in results achieved from those planned are analyzed and explained.
- Actions taken or recommended to correct variations from the plan are described.
- Periodic reports are prepared for review by senior management.
- Preparation of MBR abstracts for Management Board is facilitated.

7. CONTINUED DEVELOPMENT

Our process is organic. That is, it develops and improves with experience and changing conditions over time. We take a practitioner's, rather than a theoretician's approach to the job. Our managers are becoming increasingly skillful in using the system to get the job done. There are a number of examples of this ongoing development to meet changing needs.

Getting the right "top-down/bottom-up" decision mix has been important to continued development. Initially, the support and endorsement of senior management was critical to the early success of the ZBB/MBR process. Operating managers were allowed opportunities for participation and the freedom of action necessary to build a workable budgeting and review process and to gain confidence in its use.

Now that the process is more mature, there is added opportunity for senior management to complement and reinforce the involvement of operating managers. The responsibility for budgetary decisions is thereby shared more appropriately among all levels of management.

In many instances, program and organization changes cannot reasonably be expected to arise automatically from lower levels. It is unlikely that any manager will recommend the abolition or curtailment of his unit even though that might be of significant advantage to the Ministry's overall position. That type of recommendation has to be directed by senior management through the "top-down" input to the ZBB/MBR process, based on overall government policy and ministry needs.

Getting long-term planning input into the annual process is another example of the practitioner's approach. Annual resource planning is formally integrated with the Ministry's strategic long-term plans by a system of resource allocations for basic level program service, and resource reserves for longer-term program development. An important example of this is the planning and financing of major investment programs in new EDP systems.

Now that the ZBB/MBR process is well established, senior management can rely on the continued involvement and initiative of lower level managers in the planning of innovative and productive basic service levels. At the same time, lower-level managers are able to present decision options which reflect the Ministry's long-term program objectives. This long-term planning input avoids the drift commonly associated with year-to-year planning.

Multi-year planning output will be a new development of our system during the coming months.

When MBR plans for the current year have been formed, planning analysts will work closely with branch and decision unit managers to establish key result indicators. These, when projected in line with future trends, will aid in forecasting changes in resource requirements for 1982/83 and beyond. For the first year, this work will be of a developmental and project nature. The predictive models will be unique to specific functions and program activities and the choice of key result indicators will be influenced by the ability to project their future trend.

8. SUCCESS FACTORS

Certain approaches have contributed significantly to the success of our ZBB/MBR process. In general these are:

- Don't reinvent the wheel.

There is considerable interchangeability in existing concepts, processes and systems. The Inventory of Management Processes supports this view.

- Take an adaptive approach.

Use, from other concepts, processes and models, only those things which can be adapted to the particular needs of your unique organization.

- Avoid the panacea syndrome.

No total system is the best way solution to all problems.

- Have patience and be satisfied with small advances.

Revenue's ZBB/MBR process has been subject to ongoing development and change since 1975 and we are still improving it.

- Provide continuing training and support.

Manuals, forms and published timetables require at least annual revision and simplification to guide managers in planning tasks and provide references and checkpoints to facilitate the flow and exchange of information and promote timely decision-making.

In decentralized organizations like the Ministry of Revenue, with its many regional Tax Revenue and Property Assessment offices, it is necessary to conduct training seminars in the field to supplement the other measures.

- Consider the needs of line managers.

Keep process requirements simple and streamlined to reduce time demand and paper burden. And don't snow the manager under with requests for mounds of irrelevant and perhaps outdated data.

9. RESULTS AND ACHIEVEMENTS

The major achievements resulting from the Ministry's Resource Planning and Performance Review Process include the following:

- Senior Management has acquired a broad understanding and control of programs.
- Middle Management has accepted a much greater role in decision making.
- Productivity has been significantly increased.
- A common system, widely understood, exists for planning, budgeting and performance review.
- A sound base for developing longer term planning has been laid.
- The contract principle of funds supplied in exchange for documented performance is understood and accepted.

10. REFERENCES AND ASSISTANCE

The development and integration of ZBB/MBR systems has placed a parallel emphasis on the need for improved information and support systems, a series of which has been designed and implemented in computerized form. These systems relate to the mechanization of the ranking process, salary forecasting, expenditure calendarization and variance analysis. Information concerning these systems, ZBBRANK, SALFOR, and MOVAR is available from Ministry representatives at the Showcase booth today, or by reference to the Inventory Index.

Procedures manuals describing the Planning and Review Process and related forms for each of the fiscal years 1979/80 to 1981/82 are available for reference should visitors be interested in particular points of detail.

OVERHEAD VISUALS

The following typeset overhead transparencies were used to support and summarize the presentation text:

A. HISTORY

- 1975 - MBR introduced selectively
- Extended to all operations in 1976
- MBR well established by 1977
- 1977 - Government constraint program in its third year
- Prospects for flat-lined budgets
- Improvements in resource management are imperative

B. OBJECTIVES OF IMPROVEMENT

- Better operational control for Senior Management
- A shift of decision making to Middle Management levels
- Adaptation of Government MBR policy to benefit Ministry needs
- A facility for planning productivity improvements to offset constraints
- Flexible management systems

C. METHOD AND SCOPE OF CHANGE

Agent of Improvement

- Employ consultants to study and recommend;
or
- Use internal planning group

Method and Scope

- Improve selected Ministry areas gradually;
or
- Initiate total Ministry program

Final Decision

- Go for total program with internal group
- Research new techniques and applications

D. BASIC PRINCIPLES OF PROCESS

- The ZBB process must be adapted internally to the unique needs of the organization
- The functional level of program operation should be planned and budgeted by program and activity managers
- All resource requirements and output commitments reviewed by branch and program managers and senior Ministry management

E. ZBB – WRITING THE CONTRACT

- Managers responsible
- Functions and result indicators
- Service level planning
- Documentation of priorities
- Ranking of priorities
- Drawing budget line

F. MBR – MONITORING THE CONTRACT

- Managers responsible
- Variance of results from plan
- Action required
- Internal reports
- External abstracts

G. CONTINUED DEVELOPMENT

(A Practitioner's Approach to Using the Process)

- Top-down/bottom-up decision mix
- Direct program and organization change
- Long-term planning input
- Avoid annual plan drift
- Multi-year planning output

H. SUCCESS FACTORS

- Don't re-invent the wheel
- Take an adaptive approach
- Avoid the panacea syndrome
- Have patience and be satisfied with small advances
- Provide continuing training and support
- Consider the needs of line managers

I. RESULTS AND ACHIEVEMENTS

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J. REFERENCES AND ASSISTANCE

- Information on computerized systems is available
ZBBRANK
SALFOR
MOVAR
- Procedures manuals are at the booth for reference
- A copy of the Showcase presentation text and slides can be obtained
- Additional discussion with Ministry staff is welcomed



